



STATE OF CALIFORNIA

**ELECTRICITY OVERSIGHT BOARD**

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**MEMORANDUM**

**Date:** April 13, 2001

**To:** Electricity Oversight Board Members:  
Ms. Kari Lynn Dohn, Member  
Mr. Bruce G. Willison, Member  
Senator Debra Bowen, Member  
Assemblyman Roderick D. Wright, Member

**From:** Ben T. Arikawa, Senior Economist

**Subject:** Item 6B: Financial Status of the California Independent System Operator

**This is a status report only and requires no action.**

**Introduction**

The California Independent System Operator (CAISO) is currently financially viable. However, there are concerns about the CAISO's ability to remain an ongoing concern due to the defaults by the investor owned utilities and the growing role of the State through its direct purchases of energy. More information about the CAISO's finances will be available by next week as the CAISO finalizes its accounts for January 2001 settlements.

**Summary**

Through March, the defaults on market transactions of the California Power Exchange (CalPX), Pacific Gas and Electric (PG&E) and Southern California Edison (Edison) had not yet affected the CAISO's ability to collect sufficient revenues to meet ongoing expenses. In fact, through February, operating revenues were above the budget forecast by \$3.8 million. Operating and maintenance expenses were \$2.7 million below the budget forecast, while capital expenditures were about \$10.1 million below forecast. At the end of February 2001, the CAISO had a reserve of approximately \$31 million, which is approximately two months expenditures.

The CAISO is able to remain solvent due to a tariff provision that assigns priority to payments for its Grid Management Charge (GMC). The GMC is the main revenue source for the CAISO. It is a per unit charge on all transactions that clear through CAISO markets. The GMC is used to pay for the CAISO's operations and capital expenditures. From any moneys that are paid for settlement of market transactions, the CAISO has the ability to take GMC payments prior to making any other disbursement. Of course, the attachment of any funds for the GMC reduces the total amount for disbursement for market transactions.

In spite of this ability to remain current, the CAISO is unable to issue new debt due to the uncertainty over future payments for the GMC by market participants, in particular the investor owned utilities. This new debt would have been used to fund new capital projects, including the planned new facility, in the coming year. The new debt issues planned for this year would have been \$36 million for capital projects and \$53 million for the new facility. Some capital projects will be funded from reserves. The new facility, however, cannot be funded without a debt issue.

In addition, the CAISO's auditor, PriceWaterhouseCoopers (PwC), is reluctant to sign off on the year 2000 financial statements due to the great uncertainty about the ability of the CAISO to remain an "ongoing concern." The issuance of the financial statement is critical at this point because the CAISO is required to file it with the Federal Energy Regulatory Commission (FERC) by the end of April. Prior to that filing, the CAISO Board must approve those financial statements.

### **Other Issues**

The CalPX, PG&E and Edison are in default for payments for CAISO market transactions in November and December in the amount of \$1.9 billion. Outstanding obligations for all market participants for January, February 2001 and March are estimated at \$2.4 billion.

There is also concern about the California Department of Water Resources through its role as scheduling coordinator (SC) purchasing energy for the investor owned utilities "net short" position. This SC is known by the acronym CERS (California Energy Resource Scheduler). CERS has been purchasing significant amounts of energy through contracts and bilateral transactions. CERS is also paying for real time transactions made by the CAISO.

To the extent that CERS conducts transactions on a bilateral basis that do not clear through CAISO markets, the CAISO will not be able to attach moneys to pay for the GMC. As the role of CERS grows and its direct transactions with suppliers increase, there will be less money flowing through CAISO settlements. This brings up the question of the ability of the CAISO to continue to collect its GMC to fund its ongoing operations.